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PRINCIPAL, EXTENSION TRAINING CENTRE GANDHIGRAM

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PERSPECTIVE BUDGET OF PANCHAYAT ADMINISTRATION

REPORT OF THE LOCAL FINANCE SUB-COMMITTEE
OF THE
LEGISLATURE COMMITTEE ON LOCAL ADMINISTRATION

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PRINCIPAL, EXTENSION TRAINING CENTRE
11 JUL 1958
GANDHIGRAM
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FORT ST. GEORGE,
MADRAS-9,
Dated May 8th, 1958

From

SRI V. K. RAMASWAMI MUDALIAR, M.L.A.,
Chairman, Local Finance Sub-Committee of the Legislature Committee on Local Administration, Fort St. George, Madras-9.

24.3, 15.A, 63

To

SRI C. SUBRAMANIAM, B.A., B.L., M.L.A.,
Chairman, Legislature Committee on Local Administration.

SIR,

I enclose herewith the signed copy of the Report of the Sub-Committee for presentation to the Legislature Committee on Local Administration. I suggest for the consideration of the Legislature Commitee that the Report should be published forthwith so that public opinion may have an opportunity to express itself on the financial scheme contained therein before the Scheme is embodied in Legislation.

Yours faithfully,

V. K. RAMASWAMI MUDALIAR.

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GOVERNMENT OF MADRAS.

REPORT OF THE LOCAL FINANCE SUB-COMMITTEE OF THE LEGISLATURE COMMITTEE ON LOCAL ADMINISTRATION.

SECTION I—PRELIMINARY.

1. The Government of Madras carried out an examination of the problems of reform of Local Administration (including District Boards, Panchayats, Municipalities and the Madras City Corporation). They framed their provisional conclusions and placed them before the Legislature in the form of a White Paper. This was in the month of October 1957. The White Paper was debated in both Houses of the Legislature. A Legislature Committee was then set up and entrusted by the Legislature with the duty of carrying out a detailed scrutiny of the White Paper proposals and advising the Government thereon.

We are a Sub-Committee of this Legislature Committee, appointed as such by a decision taken by the Legislature Committee.

2. The circumstances leading to our appointment were as follows:—

(i) The most important among the reforms proposed in the White Paper relate to District Boards and Panchayats. The Government had proposed that District Boards should be abolished; and, in lieu thereof, new statutory authorities called " Panchayat Unions " are to be set up at the rate of one for every Development Block (formed under the N.E.S. Scheme). The " Panchayat Unions " are to be so-called because they are to be constituted as the apex of what may be best visualised as a " Federal System of Panchayat Administration "; of which the

Panchayats are to be the local units. The Legislature Committee provisionally accepted this basic conception of the proposed reforms scheme and proceeded to examine the details of the changes proposed.

(ii) After carrying out a detailed review, the Legislature Committee formulated its views on various questions relating to the Constitution and Functions of Panchayat Administration. The White Paper proposals were accepted subject to certain modifications and filling in of details.

(iii) When, however, the Legislature Committee proceeded to discuss the financial resources of Panchayat Administration, it found the White Paper proposals to be incomplete, inadequate, and in certain respects, unsuitable also. There was general agreement in the Committee that the proposals could not be accepted as they stood. But it was not easy, through discussions within the Committee itself, to reshape them. The subject had to be thoroughly re-examined in the light of the views expressed in the Legislature Committee, and new proposals had to be formulated. It is this task which has been entrusted to us.

3. Our terms of reference are " to go into the present financial resources of local bodies and their future requirements, and formulate detailed proposals for revision of the existing statutory allocation of resources to local bodies, as well as the institution of an appropriate system of Government grants ". In the present context, the " local bodies " with which we are concerned do not include District Municipalities or the Madras City Corporation. We are concerned only with Panchayat Unions as successors of District Boards and with Panchayats. It is a special direction to us that the detailed proposals which we are required to formulate should be devised

so as " to meet the objections raised during the discussions " in the Legislature Committee of the relevant White Paper proposals. (The nature of these objections is known to us and we shall detail them later in this report.)

4. There are also a few other subsidiary questions which we have to consider. One of them relates to the distinction between what are now called Class I Panchayats and Class II Panchayats. The Legislature Committee has reached the conclusion that the two classes of units within the proposed federal structure of Panchayat Administration will be necessary: and that the distinction between the two units will be better expressed by referring to them as Town Panchayats and Village Panchayats rather than as Class I Panchayats and Class II Panchayats. The intention is that the territory of every district should be divided into a number of Panchayat Villages, Panchayat Towns and Municipal Towns (with Townships as an exceptional fourth type of local area). There is to be a Village Panchayat for every Panchayat Village; a Town Panchayat for every Panchayat Town and a Municipality for every Municipal Town. The Town Panchayat as well as the Villge Panchayat is intended to be a local-unit within the Panchayat Union. The Legislature Committee has asked us to review all Class I Panchayats and suggest which of them should become Municipalities and which should become Town Panchayats.

5. The Legislature Committee still continues to function and has many other matters to consider. It has advised the Government to prepare a Draft Bill with necessary provisions for abolishing District Boards; for setting up Panchayat Unions; and relating them to Village Panchayats and Town Panchayats on the lines indicated by the Committee. The proposals which we have been

called upon to formulate in respect of financial resources are also to be provided for in the Draft Bill. The intention is that the Draft Bill should be placed before the Legislature Committee for its consideration. At that stage, the Legislature Committee expects to see the complete picture and finalise the conclusions which it has already reached on a provisional basis.

6. Our appointment as a Sub-Committee was decided upon by the Legislature Committee on the 17th February 1958. Thereafter, detailed data necessary for re-examination and revision of the White Paper proposals were collected by the Health, Education and Local Administration Department and revised proposals designed to meet the objections raised in the Legislature Committee were worked out. We held an informal meeting on the 29th March 1958 for preliminary exchange of views and elucidation of the departmental papers. After further study of these papers (as well as of another paper prepared by the Chairman of the Sub-Committee), we held two formal meetings on the 25th and 30th of April. At these two meetings, we took detailed decisions on the various matters referred to us. A draft report was then prepared which we discussed and finalised at a meeting held on the 8th May.

7. The arrangement of this report may now be described briefly. Our first task was to review the present level of expenditure and make an estimate of the future requirements as the basis for determining the quantum of additional resources for which statutory provision should be made. Our conclusions in this respect are set out in Sections II and III. We then proceed in Section IV, to describe the present allocation of resources and the White Paper proposals for increasing them. We explain

the nature of the objections raised in the Legislature Committee to the White Paper proposals, as well as the manner in which we propose to remove these objections. This is followed by Section V where the entire Financial Scheme proposed by us is explained. A summary statement of this scheme which we refer to as the " Perspective Budget of Panchayat Administration " is also furnished in that section. The last section of the report contains our concluding remarks.

SECTION II—LEVEL OF EXPENDITURE ON LOCAL EDUCATION—PRESENT AND PROPOSED.

8. Expenditure on Elementary Education is the largest single item of expenditure of District Boards and may be considered first. It is also convenient to do this because a separate Fund is maintained by every district board and there are specific statutory provisions regarding the allocation of resources to this Fund.

9. There are no District Boards in Madras and Kanyakumari districts. The District Boards of the eleven other districts of the State spent two crores and twenty-one lakhs of rupees on Elementary Education during 1955–56, the latest year for which actuals of expenditure are available in administration reports. Out of this total, 189 lakhs (or between 85 and 86 per cent) were spent on the pay and allowances of teaching establishments (including House-rent and Provident Fund contributions). Nineteen lakhs (or between 8 and 9 per cent) were spent on other ordinary school contingencies. Seven lakhs (or 3 per cent) were spent on school-capital expenditure. The remaining 6 lakhs (or another 3 per cent of the total expenditure)

represent the cost of District Board Administrative staff employed exclusively on elementary education. It may be mentioned, at this stage, that the expenditure total of 221 lakhs includes 121 lakhs of expenditure met by Government grants. Expenditure met from local resources was almost exactly one crore during this year. Statutory Government grants to District Boards cover 55 per cent of the District Board expenditure. Forty-five per cent of the District Board expenditure is met from assigned local revenues.

Table I below shows the amount spent by the eleven District Boards of the State during the year 1955-56: —

TABLE I.

Name of district.	Actuals (1955–56) of expenditure of District Boards on Elementary Education (including expenditure met by Government grants to District Boards).	
	In thousands of rupees.	In nave Paise per capita.
(1)	(2)	(3)
Nilgiris	303	123
Chingleput	1,829	106
North Arcot	2,499	99
Tanjore	2,571	97
Tiruchirappalli	2,388	92
South Arcot	2,387	92
Salem	2,829	90
Madurai	2,089	89
Ramanathapuram ..	1,569	87
Coimbatore	2,383	84
Tirunelveli	1,269	58
Eleven districts total ..	22,116	90

10. We would invite careful attention to the figures in column (3) of Table I which are arrived at by dividing the figures in column (2) by the number of people living in the areas administered by the District Boards. The number

school-standards was 78 pupils per 1,000 population, it is to be increased (through compulsory enrolment subject to exemption of specially hard cases) to 110 pupils per 1,000 population. Whereas in 1954-55, the number of pupils who were made permanently literate was less than 10 per thousand population, the number is to be stepped up to 20 per thousand population (as a result of ensuring that pupils complete the five-year course and do not drop out prematurely).

It is in order to secure development of primary education of this order that we are fixing 300 naye Paise per capita as the Target Level of Expenditure on Primary Education. We should add that the Legislature Committee on Education has stipulated that a system of free school meals for all poor pupils in primary schools should be organized and that the public expenditure on the provision of free school meals should be found within the allotment of 300 naye Paise per capita.

15. It is obviously necessary that funds in excess of 300 naye paise per capita will have to be provided in order to cover other educational expenditure in addition to the cost of primary education on school standards I to V. We propose to allot 50 naye Paise per capita and fix the total amount of Educational expenditure of Panchayat Administration at 350 naye paise per capita on the basis explained below:—

Item.	Amount in naye paise per capita.
(1)	(2)
Cost of Primary Education	300
Cost of Higher Elementary Education	50
Cost of Social Education	10
Deduct private contribution to Local Educational Expenditure.	10
Total Educational Expenditure ..	350

Harijan Welfare Department. They do not also include the expenditure incurred by Government through the managements of private schools both in rural areas and in Municipal Towns. It is unfortunately not possible to determine precisely, how much was spent in rural areas alone, separately from all the Municipal Towns of each district. This is so because the statistical returns of the Education department (which are otherwise very informative) fail to exhibit the expenditure on private schools located in rural areas separately from the expenditure on private schools located in Municipal Towns. We know, however, the total expenditure for Elementary Education for every district, and can compute the expenditure in per capita terms. These figures are furnished in Table II below, where the per capita figures of District Board expenditure are shown, side by side, for purposes of comparison:—

TABLE II.

Name of district.	Total expenditure on Elementary Education expressed in naye Paise per capita.		Percentage of column (3) to column (2).
	Total expenditure from all sources.	District Board expenditure.	
(1)	(2)	(3)	(4)
Tirunelveli	3·31	58	17·5
Nilgiris	2·96	1.23	41·5
Chingleput	1·23	1·06	86·2
South Arcot	1·68	92	54·8
Tanjore	2·09	97	46·4
Madurai	2·24	89	39 7
Ramanathapuram	2·31	87	37·6
Tiruchirappalli	1·78	92	51·6
North Arcot	2·22	99	44·5
Coimbatore	1·66	84	50·6
Salem	1·18	90	76·2
	1·90	90	47.4

12. It is likely that rural area figures, if separately ascertainable, would prove to be somewhat less than the

figures shown in column (2). But they would not be very much less in per capita terms, because the Municipal Town population in every district is only a relatively small proportion of the total population of every district. We may therefore proceed on the basis that expenditure on Elementary Education in the rural areas of these 11 districts is 190 naye Paise per capita. The total rural population of the State was 247 lakhs (according to the 1951 Census). Therefore the total expenditure on Elementary Education provided for the rural population of the State during 1955–56 may be estimated to be Rs. 469 lakhs. We have already pointed out that the amount spent by District Boards out of local resources (that is exclusively of Government grants) was 100 lakhs. It will be seen presently that the managements of private schools make no significant financial contribution whatever to the upkeep of their schools. So the total expenditure was borne, to the extent of 369 lakhs by Government; and 100 lakhs by District Boards. Expressed in terms of expenditure per head of rural population, Public Expenditure on Elementary Education was 190 naye Paise during 1955–56. Out of this sum, 90 naye Paise were spent by District Boards (this including 40 naye Paise out of local resources and 50 naye Paise received by District Boards as Statutory Government Grants for Elementary Education). The State Government spent 150 naye Paise, of which 50 naye Paise represent grants to District Boards and practically all the remaining 100 naye Paise were spent as Government grants to managements of private schools (a small balance being spent directly by Government on Harijan Welfare Schools).

13. We have now to frame an estimate of the "Target Level" of expenditure on Elementary Education as compared with 190 naye Paise per capita—the level of expenditure in 1955–56. In doing so, we have to take into

account certain specific recommendations already made by the Legislature Committee on Education, which had been endorsed by the Legislature and accepted by Government. These recommendations are set out in paragraph 40 of the Report of that Committee which is reproduced below:—

"40. We think it will be convenient to set out, at this stage, a complete statement of our conclusions regarding the *Targets* for 1965–66, limits of costs and relative priorities. Our advice to the Government is as follows:—

I. Make all preparations necessary for raising funds in order to step up the average annual cost per capita (on Standards I to XI) from Rs. 3-1-0 to Rs. 5 per capita. This will be difficult. It will entail stepping up of the incidence of State taxation and local taxation and mobilisation of education endowments. Panchayats, municipalities and district boards should be required to undertake a specific share of the responsibility for levying local taxation and raising funds.

II. Out of Rs. 5 per capita allocate Rs. 3 for Standards I to V and Rs. 2 for Standards VI to XI. This will mean an increase of Rs. 1-2-0 per capita for Standards I to V and As. 13 per capita for Standards VI to XI. If new resources fall short of Rs. 1-15-0 per capita, allocate such extra resources as may be available proportionately.

III. Accept a definite target of annual outturn of pupils who complete the primary phase of Elementary Education and attain permanent literacy at the rate of 20 pupils (boys and girls) per 1,000 people, at a cost not exceeding Rs. 150 per pupil. To this end, enforce compulsion and reduce wastage. Provide free school meals for poor children. Step up enrolment in Standards I to V to 110 per thousand people; and enrolment in Standard V to 20 per thousand people. Regulate the number of teachers at the rate of 1 per 40 pupils; and the pay scales of teachers so as not to exceed the allocated cost per capita. Encourage

school-standards was 78 pupils per 1,000 population, it is to be increased (through compulsory enrolment subject to exemption of specially hard cases) to 110 pupils per 1,000 population. Whereas in 1954-55, the number of pupils who were made permanently literate was less than 10 per thousand population, the number is to be stepped up to 20 per thousand population (as a result of ensuring that pupils complete the five-year course and do not drop out prematurely).

It is in order to secure development of primary education of this order that we are fixing 300 naye Paise per capita as the Target Level of Expenditure on Primary Education. We should add that the Legislature Committee on Education has stipulated that a system of free school meals for all poor pupils in primary schools should be organized and that the public expenditure on the provision of free school meals should be found within the allotment of 300 naye Paise per capita.

15. It is obviously necessary that funds in excess of 300 naye paise per capita will have to be provided in order to cover other educational expenditure in addition to the cost of primary education on school standards I to V. We propose to allot 50 naye Paise per capita and fix the total amount of Educational expenditure of Panchayat Administration at 350 naye paise per capita on the basis explained below:—

Item. (1)	Amount in naye paise per capita. (2)
Cost of Primary Education	300
Cost of Higher Elementary Education	50
Cost of Social Education	10
Deduct private contribution to Local Educational Expenditure.	10
Total Educational Expenditure ..	350

The allotment proposed for educational expenditure may also be divided up as shown below:—

Item.	Amount in naye Paise per capita.
(1)	(2)
Pay and Allowances of Teachers	240
School meal grants	60
Other Educational Expenditure (exclusive of private contribution to local educational expenditure) ..	50
Total ..	350

16. The Legislature Committee has allotted 200 naye Paise per capita for 6 school-years after Primary Education; which comprise (according to the curricular scheme recommended by the Committee) both Higher Elementary Education in the Sixth and Seventh School Standards and Secondary Education in the Eighth, Ninth, Tenth and Eleventh School Standards. The break-up of this total expenditure has not been indicated. In order to effect this break-up, we make two assumptions:—

(i) Enrolment in the two new Higher Elementary School Standards VI and VII will be just about equivalent to enrolment in the four new Secondary School Standards (VIII to XI); and (ii) the cost-per-pupil per annum of Higher Elementary Education will be about one-third of cost-per-pupil per annum in Secondary Education. These assumptions lead to the conclusion that 50 naye Paise per capita should be allotted to Higher Elementary Education and 150 naye Paise per capita for Secondary Education.

17. According to the Scheme of allocation of funds accepted by the Legislature Committee on Local Administration, Panchayat Unions and Panchayats will have no responsibility for Secondary Education. The High Schools at present managed by District Boards will not be transferred to Panchayat Unions; they are to be vested

in a separate statutory agency. At the same time, however, it will be necessary for Panchayat Unions and Panchayats to incur a limited amount of expenditure on education other than Elementary Education. The relevant purposes are specified below:—

(i) Opening and Maintenance of Reading Rooms and Libraries;

(ii) Establishment and Maintenance of Wireless Receiving sets, Playgrounds, Parks, Sports Clubs and Centres of Physical Culture; and

(iii) Opening and Maintenance of "Literacy Centres" for purposes of adult education.

These services may be conveniently referred to as "Social Education". Though these services are undoubtedly important and will cost money, we do not propose to increase our estimate of financial resources required to be allocated to Panchayat Administration above 350 naye Paise per capita. We consider it to be both possible and necessary that private contribution to local educational expenditure should be raised to an extent sufficient to limit the total amount of local educational expenditure to the target level proposed, viz., 350 naye Paise per capita.

18. The private contribution to which we refer is not to be understood as consisting merely of the recovery of a part of the expenditure on social educational services referred to above, through fees or voluntary contributions. We refer generally to "local education" as a whole, that is to say Primary Education, Higher Elementary Education and Social Education, constituting the sphere of responsibility of Panchayat Administration. In this sphere, we think there is room for securing private contribution from the managements of aided elementary schools. At present the position is that the entire amount of recurring annual expenditure on Elementary Education is

met by the Government and the local authorities. If there are any managements of aided private elementary schools which make a significant financial contribution they must be few and far between. The contribution made by them must be altogether insignificant in relation to total expenditure. Under the present system, aided private school managements are authorized to employ teachers on a much more liberal scale than local authorities. They are assured of payment of grants which cover not only the entire pay and allowances of teachers in full, but include in addition a margin for reimbursing other expenses of school management. This margin is fixed at 15 per cent which again compares favourably, when compared with the actuals of District Board expenditure. It is not surprising, in these circumstances, that it should be alleged that some among the managements of aided private schools are actually making a profit on the grants.

It may be that there was some justification for a financial system of this nature to be operated in the early days of development of elementary education. Today, however, it is anomalous and unreasonable. It has already given rise to grave inequalities of development, causing practical difficulties in relation to the organization of further development which we shall refer to again in the next Section. At this stage we are only pointing out that the time has arrived when this system should be changed to the extent atleast of securing that every aided private school management is required to make some contribution of definite financial significance even if it is not in cash and even if the value of such contribution is limited.

In this connection, it is useful to compare Panchayat Schools with Aided Private Schools. So far as Panchayat Schools are concerned, the Government meet the entire expense of teachers. All other expenses incidental to the

maintenance and management of the School are borne by the Panchayats. We see no justification whatever for giving larger grants to private schools than for Panchayat Schools. We recommend, therefore, that the Grant-in-aid Rules be revised to the extent atleast of abolishing the 15 per cent margin at present paid to managements of aided private schools and placing the grants to private schools on a par with grants to Panchayat Schools. It should be a condition attached to payment of Grant-in-aid (covering teachers' pay and allowances) that the other expenses incidental to the maintenance and management of the school should be borne by the management. The fact that it is so borne (and that necessary expenses are not stinted) should be accounted for and verified. We may add (so as to avoid any misunderstanding of the nature of our recommendation) that the revised rules should be made applicable uniformly to all aided private schools without any discriminating exceptions. Subject to this condition, we are in favour of continued assistance being given to all private schools so long as they are properly managed.

SECTION III—LEVEL OF EXPENDITURE ON LOCAL WORKS AND LOCAL SERVICES OTHER THAN EDUCATION—PRESENT AND PROPOSED.

19. During 1955-56, all the 11 District Boards of the State spent, in the aggregate, a sum of 2 crores and 13 lakhs on Local Works and Local Services other than Education. In terms of expenditure per head of population, it amounted to 86 naye Paise. (In addition, the net contribution made by all District Boards to the maintenance of High Schools, after excluding High School fee receipts and Government Grants for High Schools, amounted to 10 lakhs or 4 naye Paise per capita. We are ignoring this, as High Schools will not be transferred

to Panchayat Unions). Table III below shows how the total expenditure was distributed among different heads:—

TABLE III.

Main head and sub-head of expenditure.	Actuals (1955–56) of expenditure by eleven District Boards of the State.	
	Amount (in thousands of rupees).	Amount (in naye Paise per capita).
(1)	(2)	(3)
General Management, Revenue Collection and Miscellaneous Services. ..	2,782	11
Local Health and Welfare Services—		
Water-supply, Drainage, Sanitation and Lighting.	129	2
Maternity and Child Welfare	361	
Health Protection	1,032	4
Medical Relief	2,867	12
Total ..	4,389	18
Local Works (Capital) Expenditure ..	3,322	13
Maintenance of Roads	8,432	34
Maintenance of other works	391	2
Engineering Establishment	1,944	8
Local works total ..	14,089	57
Grand total ..	21,260	86

20. It is necessary to observe how the total expenditure referred to above, viz., 2 crores and 13 lakhs was distributed among the 11 districts and how the districts compared with one another and with the State as a whole in terms of expenditure per head of rural population. This is shown in Table IV below; the districts being arranged in order of per capita expenditure.

TABLE IV.

Name of district.	Actuals (1955-56) of District Board expenditure on Local Works and Local Services other than Education. Amount (in thousand of rupees).	Amount (in naye Paise per capita).
(1)	(2)	(3)
ilgiris	412	167
Madurai	2,720	117
Tanjore	3,042	111
Tirunelveli	2,431	110
Coimbatore	2,724	95
South Arcot	2,417	93
Ramanathapuram	1,639	91
Salem	2,412	77
Tiruchirappalli	1,635	63
Chingleput	884	51
North Arcot	944	37
Total of eleven districts ..	21,260	86

The large variations in per capita expenditure may be noted at this stage. The significance of these variations in relation to the allocation of the resources will be dealt with in the next Section.

21. It is now necessary to take into account the expenditure incurred by Panchayats on the local works and local services maintained by them. Here, however, detailed data with districtwise break-up were unavailable. In fact, separate data could not be secured for the reorganized State, within its present limits; as available returns refer to the Residuary State of Madras. We have, therefore, computed the expenditure for the Residuary State in per capita terms, that is to say the expenditure incurred by all Panchayats of Class I and Class II taken separately, being divided by the number of people in the charge of the two classes of Panchayats. It may be fairly assumed that the per capita expenditure in all Panchayat Towns (i.e., Class I Panchayat Areas) of the reorganized State was more or less the same as in the Residuary

State; and that the same is the case of all Panchayat Villages also. The information thus complied is shown in Table V below:—

TABLE V.

Main heads and sub-heads of expenditure.	All panchayat villages. Expenditure per head of population on Local Works and Local Services other than Education.			All panchayat towns. Expenditure per head of Panchayat Town population on Local Works and Local Services other than Education.		
	District Board expenditure.	Village Panchayat expenditure.	Total expenditure.	District Board expenditure.	Town Panchayat expenditure.	Total expenditure.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	(IN NAYE PAISE)			(IN NAYE PAISE)		
General Management, Revenue Collection and Miscellaneous Services.	11	15	26	11	68	79
Local Health and Welfare Services—						
Water-supply, Drainage, Sanitation and Lighting.	2	22	24	2	133	135
Maternity and Child Welfare	..	1	1	..	4	4
Health Protection	4	..	4	4	9	13
Medical Relief	12	1	13	12	2	14
Total ..	18	24	42	18	148	166
Local Works (Capital) Expenditure	13	2	15	13	7	20
Maintenance of Roads	34	19	53	34	41	75
Maintenance of other Works and Engineering Establishment.	10	2	12	10	1	11
Total ..	57	23	80	57	49	106
Grand total ..	86	62	148	86	265	351

22. The rural population in the charge of the 11 District Boards was, according to the 1951 Census, 247 lakhs (the population of Municipal towns being excluded from the district population totals). The figure in Table V suggest that the rural population could be divided into three broad categories, with different levels in respect of cost of local amenities (by which we mean the cost of local works and local services other than education). About 39 lakhs of people (or 16 per cent of the rural population) live in Panchayat Towns, with local amenities costing 351 naye Paise per capita. The remaining 231 lakhs of rural population are at present divided into two other categories probably in approximately equal numbers. There are the Panchayat Villages having local amenities costing 148 naye Paise per capita; and the Non-Panchayat Villages with local amenities valued only at 86 naye Paise per capita. These figures represent averages for all the 11 districts. As noted already, there is a considerable amount of variation from district to district. No doubt, therefore, there must be very wide variations from Block to Block throughout the State.

It may be added, for purposes of comparison, that if all the Municipal Towns of these districts are considered as a separate category, the cost of local amenities provided by Municipalities is found to be not far short of ten rupees per head of Municipal Town population (965 naye Paise).

23. In attempting to frame an estimate of the future requirements of local amenities for every Development Block in which a Panchayat Administration of the new model is to be set up, it is no use attempting even to

approach conditions in Municipalities. For one thing, it is natural that village people living in small groups out in the open should need fewer or far less elaborate arrangements of an artificial nature for purposes of water-supply, drainage and sanitation and internal communication facilities than people living in large towns and cities who can rarely get out in the open and who cannot live without elaborate artificial arrangements for these purposes. Again the difficulty of raising new resources, especially through additional local taxation also imposes a limitation on the level of amenities which can be realistically planned for.

Bearing in mind both sets of considerations we propose that the target level of annual expenditure on local amenities in all Panchayat Villages should be fixed at 250 naye Paise per capita. That would be intermediate between the present level in Panchayat Villages and the present level in Panchayat Towns. In respect of Non-Panchayat Villages for which Panchayats are to be newly set up, it would mean treble the present level of expenditure on local amenities.

We do not envisage, as part of our present proposals, any particular increase or decrease in the present level of expenditure in Panchayat Towns.

24. We assume that necessary resources can be allocated so as to raise the level of expenditure on local amenities from 86 naye Paise per capita in the present Non-Panchayat Villages and 148 naye Paise per capita in the present Panchayat Villages to 250 naye Paise per capita for both categories of villages when they are equipped with Panchayat Administration of the new model. On

that assumption, we have considered what would be an optimum distribution of the increased resources. This is shown in Table VI below:—

TABLE VI.

Main heads and sub-head of income.	Target level of average annual expenditure in		
	Panchayat Unions (in naye Paise per capita).	Village Panchayats (in naye Paise per capita).	Total (in naye Paise per capita).
(1)	(2)	(3)	(4)
General Management, Revenue Collection and Miscellaneous Services.	15	15	30
Local Health and Welfare Services—			
Water-supply, Drainage, Sanitation and Lighting.	..	45	45
Maternity and Child Welfare ..	20	5	25
Health Protection and Medical Relief.	30	..	30
Total ..	50	50	100
Local Works Capital Expenditure.	20	20	40
Maintenance of Roads ..	40	20	60
Maintenance of other works and Engineering establishment.	10	10	20
Total ..	70	50	120
Grand total ..	135	115	250

25. If the figures in Table VI are compared with the corresponding figures in Table V, it will be apparent where the main increases are proposed; and the justification will be obvious in most cases. We offer the following comments by way of clarification:—

(i) *General Management, Revenue Collection and Miscellaneous Charges.*—As against the present expenditure of 26 naye Paise, in relation to a total expenditure

of 148 naye Paise, the proposed expenditure of 30 naye Paise in relation to a total expenditure of 250 naye Paise entails a definite reduction. This may seem impracticable seeing that the replacement of one District Board by over a score of Panchayat Unions must necessarily entail an increase of overhead charges and seeing also that similar expenditure on the part of Town Panchayats is 68 naye Paise. We expect it should be possible to limit expenditure under this head to 30 naye Paise mainly because the services of the Block Development Officer and his office staff as well as of the Village Level Workers will be placed at the disposal of Panchayat Administration and will be used for purposes of general management and miscellaneous services. The cost will be met by the Government under the National Extension Service Scheme and no part of the expense will fall on Panchayat Union Funds.

(ii) *Local Health and Welfare Services.*—The proposed increase from 42 naye Paise to 100 naye Paise is evenly distributed under different heads. A combined total is given for Health Protection and Medical Relief partly because of integration at the Primary Health Centre. Account is also taken of the fact that the cost of hospital facilities and services of the Medical Officer will be paid for by Government. The expenditure on Maternity and Child Welfare is, at present, practically negligible. The proposed provision will render it possible to maintain an adequate staff of Maternity Assistants and also make some funds available for improving the quality and utility of the services of Village Thayis.

(iii) *Local Works.*—The total provision is proposed to be increased from 80 naye Paise to 120 naye Paise. This increase should lead to a marked improvement in the condition of local communications. The Major District Roads will be taken over completely by Government before the

end of the Second Five-Year Plan period and a large proportion of the increased resources could be devoted to roads which are receiving little attention at present.

SECTION IV—ALLOCATION OF RESOURCES—PRESENT POSITION AND PROBLEMS TO BE SOLVED.

26. We have seen that the most important single item of expenditure of District Board is Elementary Education. A separate fund is maintained for meeting this expenditure and there is an item of local revenue which is specifically earmarked for this purpose. This is the "Education Cess" of which the levy is authorized by section 34 (2) of the Madras Elementary Education Act, 1920. This levy has to be imposed as a specific proportion of the land revenue. The actual proportion has to be fixed by the District Board, subject to a maximum of three annas in the rupee of land revenue. The maximum rate has been levied by every District Board; except Tanjore district. In Tanjore district, cess is levied at the rate of two annas in the rupee of land revenue; this being made possible by the fact that nearly all lands being wet throughout the district the land revenue of the district is higher in relation to its population than in any other district. The yield of the cess at a lower rate than the maximum is sufficiently high and is also supplemented by a large contribution from the General Fund. The total yield of the Education Cess for all the eleven District Boards was 97 lakhs in 1955–56; or 39 naye Paise per capita. The expenditure of the District Boards, exclusive of Government grants, was 100 lakhs or

40 naye Paise per capita. Table VII below shows how the yield of the Education Cess varied from district to district:—

TABLE VII.

Name of district.	Yield of the Education Cess.	
	Amount in thousands of rupees.	Amount in naye Paise per capita.
(1)	(2)	(3)
Coimbatore	1,490	52
Tanjore	1,355	51
Madurai	1,140	48
South Arcot	1,205	46
North Arcot	1,115	44
Tiruchirappalli	940	36
Ramanathapuram	598	33
Chingleput	501	29
Tirunelveli	593	27
Salem	686	22
Nilgiris	52	21
Total eleven districts ..	9,675	39

It is to be noted that the average yield for the State as a whole of a cess levied at 19 naye Paise in the rupee of Land Revenue Yields 39 naye Paise per head of rural population in the State. From this, it may be deduced as a working rule that an increase of cess by every naye Paise in the rupee of Land Revenue will yield just a little more than two naye Paise per head of rural population.

27. The largest single source of income for the General Fund of the District Board is provided by the "Land Cess" levied under section 74-B of the Madras District Boards Act. The levy of this cess is compulsory. The law prescribes the rate, viz., two annas in the rupee of land revenue. Section 92 of the Act provides that three-fourths of the collections from Panchayat villages and Panchayat towns and the entire collections from non-Panchayat villages should be credited to the District Board. One-fourth of the collections in Panchayat villages

and Panchayat towns has to be credited to the funds of the village panchayat or town panchayat concerned. The Land Revenue Department determines who has to pay and how much; and collects the money and credits it to the District Board Fund or Panchayat Fund, as the case may be. During 1955-56, the credits to District Boards amounted to 56 lakhs or 23 naye Paise per capita. This was in addition to 6 naye Paise per capita for Village Panchayats and five for Town Panchayats.

28. Recently, the Madras Land Revenue (Additional Surcharge) Act, 1955, was passed. So far as the persons from whom and the rates at which the levy authorized by this Act is made, it is practically the same as the Land Cess referred to above. The rate is 13 naye Paise in the Rupee of Land Revenue. Instead, however, of its being directly credited to the local authority in whose jurisdiction the income arises, the Act authorizes the Government to pool the income for the State as a whole and redistribute it in the manner provided by Statutory rules. The rules which are now in force provide for redistribution as below:—

(i) The whole of the net proceeds in Madras City and other Municipal Towns are credited to the respective Municipal Towns.

(ii) Out of the net proceeds collected in Non-Municipal Towns—

(*a*) one-third is distributed among District Boards in proportion to population;

(*b*) one-third is distributed among District Boards in proportion to mileage of roads under District Board control; and

(*c*) the remaining one-third is credited directly to the local authority in whose jurisdiction it arises; that is to say the Town Panchayat in a Panchayat Town, the Village Panchayat in a Panchayat village; and the District Board in a non-Panchayat village.

The District Board accounts of 1955-56 show only 27 lakhs under this head, thereby indicating that the greater part of the income (which should normally add up to two thirds of the Education cess) was probably credited in the next financial year.

29. Another important source of income is the surcharge on stamp duty. So far as District Boards are concerned, the income from this source accrues to them only from non-Panchayat Villages under section 110-A of the Madras District Boards Act, 1920. The surcharge on the stamp duty on transfers of property occurring in Panchayat Villages and Panchayat Towns accrues to the funds of the panchayats concerned. The rate of surcharge is 4 per cent in rural areas (while it is 5 per cent in Municipal Towns). This is a shrinking item of revenue so far as District Boards are concerned. When every village has a panchayat, the entire surcharge has to be credited to Panchayat funds. The yield from this source was 32 lakhs for all District Boards or 17 naye Paise per capita. The yield varied from 6 naye Paise in the Nilgiris district and 7 in North Arcot district to 24 naye Paise in Tanjore and 26 in Tirunelveli districts. At the same time, Village Panchayats got 25 naye Paise per capita and Town Panchayats 34.

30. Another important source of income is a rather curious item. Section 10 (1) (*a*) of the Madras Motor Vehicles Taxation Act, 1931, provides that every District Board should be paid certain amounts representing the average annual income they had actually derived during the period ending 31st March 1931 by way of tolls or vehicles tax on motor vehicles and also the average annual income they had actually derived during the triennium ending 31st March 1938 by way of fees by licences granted to the motor vehicles. The income from this source during 1955-56 for

all District Boards was just under 40 lakhs or 16 naye Paise per capita. The income varied from 9 naye Paise in South Arcot and 10 in North Arcot to 23 naye Paise in Ramanathapuram and Coimbatore. Nilgiris got 65 naye Paise per capita from this source.

31. The sources mentioned so far exhaust what may be regarded as major items for District Boards. One other item, viz., the house tax is a major item of revenue leviable by Panchayats under section 63 (1) of the Madras Village Panchayats Act, 1950. The levy of this tax is compulsory. There are elaborate statutory rules which prescribe how it should be levied. In practice, the Town Panchayats use this source to good purpose; and secure an income exceeding one rupee per capita. Most Village Panchayats steer clear of levying this tax seriously and the yield is only 12 naye Paise per capita.

32. Table VIII sets out below the income from all other sources which may be referred to as "Minor Local Revenues":—

TABLE VIII.

Item of minor local revenue.	Yield (1955–56) in naye Paise per capita.		
	District Board.	Village Panchayats.	Town Panchayats.
(1)	(2)	(3)	(4)
1 Market fees	9	3	30
2 Entertainment tax	1	2	39
3 Licence fees	2	3	20
4 Profession tax	..	1	15
5 Vehicles tax	..	4	6
6 Fishery rent	..	..	1
7 Ferry rent	1	..	1
8 Scavenging tax or fees	..	..	5
9 Railway income	2	..	..
10 Other miscellaneous income ..	5	4	4
Total ..	20	17	121

The yield of the foregoing items is highly variable. Thus market fees which yield 9 naye Paise for the State on the average, yields practically nothing in Tanjore, Chingleput and Nilgiris districts. The yield is only one naye Paise per capita in South Arcot, Ramanathapuram and Tiruchirappalli. At the other end markets account for no less than 38 naye Paise per capita for Coimbatore, 14 naye Paise for Madurai and 10 for Salem.

33. Mention should be made, at this stage of certain powers of local taxation vested by law in the panchayats, of which, however, little or no use has ever been made by any panchayat.

Section 63 (3) (*b*) of the Madras Village Panchayats Act, 1950, confers a power to levy a " Tax on Agricultural land for a specific purpose ". Statutory rules specify the " specific powers " for which this tax may be levied; and they state explicitly that the rate of tax is to be fixed on the basis of the extent of the land; but the panchayat may adopt different rates, one for wet lands and another for dry lands commensurate with the value of the land. It should be noted that the law imposes no quantitative maximum in respect of the rates of tax thus leviable. Other clauses of section 63 (3) of the Act provide for variations of this power. The panchayat may levy an optional cess of a quarter anna in the rupee of land revenue without relation to any specific purpose. Also without such limitation, it may levy " fees on commercial crops bought and sold in the village, not being a crop on which fees are levied by a Market Committee ".

As none of these powers is exercised, the yield is nil.

34. Finally, reference should be made to the income derived by way of Government grants—

(i) Under section 37 of the Madras Elementary Education Act, there is a statutory obligation on the Government to make grants to Elementary Education

Funds maintained by district boards. The manner in which the amount of Government grant is to be determined is laid down in the Act. The total amount of grant paid to all district boards during 1955–56 was, as already noted, 121 lakhs or 49 naye Paise per capita.

(ii) There used to be an obligation on Government to make grants to Village Panchayats equal to one-eighth of the land revenue. The relevant provision of the Act was repealed when the additional surcharge on land revenue was instituted and the proceeds were made available for redistribution.

(iii) In recent years the Government adopted the practice of making non-statutory grants to help district boards whose budgets were in deficit. The amount of such grant is limited to the cost of Dearness Allowances paid to District Board employees. There were a few other minor grants covering a percentage of expenditure incurred on certain specified purposes. The total amount of non-statutory Government grants paid during 1955–56 amounted to 19 lakhs; 5 naye Paise per capita for district boards, 1 for village panchayats and 4 for town panchayats.

35. The total income during 1955–56 from all sources, as thus described, amounted to 231 lakhs for all district boards; 94 lakhs for all village panchayats; and 119 lakhs for all town panchayats. Expressed in per capita terms, the income amounted to 94 naye Paise for district boards; 61 naye Paise for village panchayats and town panchayats secured over three rupees per capita on the average. It should be noted, however, that the yield of the additional surcharge on the land revenue was not fully credited during this year (*vide* paragraph 28 above). It may be estimated that the full yield would be 27 naye Paise per capita as against 11 actually credited. The total income of district boards should be 110 naye Paise as against 94 naye Paise referred to above.

36. We may now proceed to the assessment of extra income required and consider the problems involved in raising it. For that purpose, it will simplify discussion if we ignore the existence of town panchayats, and visualize all the Development Blocks of the State as consisting solely of Panchayat villages. We shall proceed further in this report on this basis, until we come to the last section when the question of linking up town panchayats with Panchayat Unions will be discussed.

37. The yield, at existing rates of existing sources of income creditable to the General Funds of all district boards has been seen to be 110 naye Paise per capita. The Yield of the Education Cess creditable to Elementary Education Funds of all district boards is 39 naye Paise per capita. The income credited to Village Panchayat Funds was 61 naye Paise per capita. Adding up, we get 210 naye Paise per capita as the sum total of the combined resources at present assigned to district boards and village panchayats as their local revenues. In addition, there is provision for statutory Government grants for elementary education amounting to 60 naye Paise per capita and non-statutory Government grants for other purposes amounting to 5 naye Paise per capita. Assigned local revenues and Government grants thus amount to 275 naye Paise per capita. We have proposed earlier that the target level of future educational expenditure should be 350 naye Paise per capita; and that the target level of future expenditure on local works and all local services other than education should be 250 naye Paise per capita. We need, therefore, a system of allocation of financial resources which will yield a combined annual revenue of 600 naye Paise per capita for the Panchayat Administration consisting of both Panchayat Unions and Village Panchayats. As all existing resources account for only 275 naye Paise per capita, there is a gap of 325 naye Paise per capita to be filled. Wherefrom will this money come?

38. The answer, as provisionally proposed by the Government, is to be found in Section VI entitled Panchayat Union Funds and Village Panchayat Funds (at pages 25 to 28) of Appendix I-A entitled Memorandum outlining the proposed constitution of the North Madurai Panchayat Union, read with paragraph 2 (at page 6) of Section II of the White Paper. The essential features of the Government's proposals may be divided into two parts, one dealing with Educational Expenditure and the other with all other expenditure:—

(i) *Panchayat Union (Education) Fund.*—The Panchayat Union will have a separate fund, similar to the Elementary Education Fund of District Boards at present. All educational expenditure falling within the field of responsibility of the Panchayat Union will be incurred from the Fund. Omittnig unessential items of minor significance, the scheme is that this expenditure is to be divided into two parts which may be distinguished as "Basic Expenditure" and "Developmental Expenditure". The Basic Expenditure is the expenditure actually incurred during the year 1956-57. This is to be met by the proceeds of the Education Cess (at current rates) and a "Basic Grant" fixed by Government for each Panchayat Union so as to cover the balance of Basic Expenditure. This will leave the excess, viz., Developmental Expenditure to be provided for. This is to be divided in the ratio of two to one between the Government and the Panchayat Union. The Government share will be paid into the Fund in the form of an Education Development Grant over and above the Basic Grant. The Panchayat Union share is to be paid by the Union.

(ii) *Panchayat Union (General) Fund and Village Panchayat Funds.*—The income for these funds will be from the same sources as at present allocated to district

boards and village panchayats. Increased income, necessary for local communications and local health and welfare services as well as for making the contribution to the Panchayat Union (Education) Fund already referred to above is to be secured (i) by increased local taxation, in particular, by use of the " Tax on Agricultural land " for special purposes under section 63 (3) (*b*) of the Madras Village Panchayats Act, 1950; and (ii) General Development Grants to be payable by Government in aid of the Panchayat Union (General) Fund.

In respect of item (ii), the proposals were (*a*) Full grants for such of the road and bridge schemes as are included in the Second Five-Year Plan; (*b*) Half-grants to three-fourth grants according to the financial position of the Panchayat concerned, towards the cost of improvement of village communications; and (*c*) one-fourth to half-grant towards the cost of capital works relating to maternity and child welfare.

39. The Legislature Committee on Local Administration has already held that these proposals are incomplete, inadequate and in certain respects unsuitable. The grounds on which this opinion has been reached are set out below:—

First.—Apart from the provision that Government would pay an Education Development Grant covering two-thirds of the Development Expenditure, there is no specific commitment in respect of any other Government Grant. The reference to the " General Development Grant " is too vague and no serious development can be planned on that basis. If the present yield of non-statutory grants is only 5 naye Paise per capita, how much will be proposed " General Development Grant " amount to? It looks as if the proposals amount merely to the redistribution among Panchayat Unions of the existing poverty of District Boards.

advantages offered by that system more freely in some districts than in others. An equitable arrangement should be devised whereby these areas which have been insufficiently helped by Government grants, in the past should receive relatively larger Government grants hereafter. As further progress is made towards the target level of expenditure, existing disparities in the relative proportion between Government grants and local resources should get reduced and, if possible, ultimately disappear.

Fifthly.—It will be seen from the wide differences that exist in the yield of the cess income (levied at the same proportion of the land revenue) that the capacity of different districts and different blocks to raise new resources by local taxation varies widely. It follows that it will not be equitable to expect all blocks to raise the same amount of local taxation (expressed in per capita terms). The adoption of an uniform proportion as the basis of settling Government grants payable to all blocks is an unsuitable arrangement.

40. While we have to devise a scheme which will meet these objections the Legislature Committee has also made it clear that we should not seek an easy way-out by recommending that all new expenditure should be met by Government grants. It has been specifically agreed in the Legislature Committee that the Panchayat Administration " should be made to take a certain measure of financial responsibility, as then only they were likely to act as responsible bodies and take responsible decisions. They should not be made to feel that the responsibility for voting the taxes was that of the Legislature and their business was only to spend the money voted by the Legislature ".

Welfare Schools) is borne in full by Government, while the other part (viz., the expenditure on District Board Schools) is shared between Government and the District Board on a roughly half-and-half basis. The proposal is to continue the *status quo* with Panchayat Unions replacing District Boards; and divide up all new expenditure between Government and the Panchayat Union in one and the same ratio for all blocks. It can be shown that this will be a very inequitable arrangement. Thus, the total expenditure in Tirunelveli district, is the highest among all the 11 districts. 82.5 per cent of this expenditure falls on the first part because private schools are so numerous and the Government bear in full so much expenditure. The other part which is shared between the Government and the District Board is only 17.5 per cent of the total expenditure. At the other extreme, there is Salem district where the level of total expenditure is the lowest among all the districts. Here private schools are less developed and the expenditure which falls in the first part is only 23.8 per cent. Government bear in full the cost of this part. The expenditure on District Board Schools account for 76·2 per cent of total expenditure.

Salem has a long way to go before the target level is to be reached. Tirunelveli has only a short way to go. To stabilise the unequal rates of Government expenditure in these districts at their present level and call upon Salem to meet the same proportion of its future increases as in Tirunelveli is absolutely inequitable. In between these two extreme instances of undue disparities there is a wide range of anomalous variations not only between one district and another, but also between different blocks of the same district. These anomalies owe their present existence to a faulty financial system and the historical accident that private educational enterprise made use of the

advantages offered by that system more freely in some districts than in others. An equitable arrangement should be devised whereby these areas which have been insufficiently helped by Government grants, in the past should receive relatively larger Government grants hereafter. As further progress is made towards the target level of expenditure, existing disparities in the relative proportion between Government grants and local resources should get reduced and, if possible, ultimately disappear.

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41. We have made a very careful study of this somewhat intricate problem and we have evolved a Financial Scheme which is set out and explained in the next section. In that Scheme, we have made provision for meeting the five objections listed in paragraph 39 while at the same time fulfilling the condition specified in paragraph 40 above. The manner in which the objections are met is briefly stated below:—

First objection.—We propose to replace the " General Development Grant ", by two statutory grants called the " Local Cess Matching Grant " and " Local Road Grant " for the Panchayat Union (General) Fund and a third called the " House Tax Matching Grant " for the Village Panchayat Fund. These three new grants will be as specific as the statutory grant at present provided by the Madras Elementary Education Act, 1920.

Second objection.—We have now made an estimate of requirements and fixed a target level of total expenditure as well as for Main Heads and Sub-heads of expenditure. In allocating new resources, we have taken care to secure that the yield of these resources would add up to the Target level of expenditure if the Panchayat Administration makes a reasonable and practicable effort to raise new resources in exercise of the enlarged powers proposed to be vested in it. We have devised the conditions attached to two of the new Government grants proposed by us (viz., the Local Cess Matching grant and the House Tax Matching Grant) so as to provide a strong incentive to the Panchayat Administration to exercise the powers vested in it. That is how we have arrived at a " Perspective Target of Panchayat Administration " which constitutes a summary statement of our Financial Scheme.

Third objection.—We have removed the uncertainty complained of. Our Scheme is based on the assumption that the responsibility for payment of grants to private

schools is vested in the Panchayat Union, as part of its general statutory responsibility for the maintenance and development of Elementary Education. Unless this is done, it would be impossible to devise an equitable scheme of allocation of financial resources, or to bring about the progressive reduction and ultimate elimination of the anomalous disparities in the progress of Elementary Education in different parts of the State.

Fourth objection.—Recognising the force of this objection, we have devised a slab system of division of local educational expenditure in every block between the Government and the Panchayat Union of the Block. Local expenditure will represent the consolidated total expenditure including expenditure on private schools. It is this total which will be divided into three slabs. The first slab will consist of all educational expenditure up to 100 naye Paise per capita. The second slab will consist of all educational expenditure above the first slab up to 350 naye Paise per capita. The third slab will consist of such expenditure, if any, as there may be above the second slab. We propose that the first slab expenditure should be met wholly by Government in every block, this being given effect to permanently by a statutory assignment of local revenue which we refer to as the "Land Revenue Centage". The Second slab expenditure is to be met to the extent of 60 per cent by a Local Education grant and to the extent of 40 per cent by a contribution to the Panchayat Union (Education) Fund from the Panchayat Union (General) Fund. When expenditure reaches the target level, that is, the top of the Second slab, the Panchayat Union contribution would be (on an average for the whole State) 100 naye Paise per capita out of 350 naye Paise per capita. The present yield of the Education cess is 40 naye Paise per capita. In raising it to 100 naye Paise, the Panchayat Union will be helped

by the Local Cess Matching Grant to the extent of 30 naye Paise per capita. The net liability falling on local revenues would thus be only 70 naye Paise per capita against a target level expenditure of 350 naye Paise. We make no proposal at this stage about Third slab expenditure, that is, above the target level of 350 naye Paise per capita. Such cases, if and when they arise, would be dealt with on an *ad hoc* non-statutory basis.

Fifth objection.—In order to meet this objection we have devised a system of " Fiscal classification of blocks ". We propose that, once in every five years, every block should be assigned a fiscal classification as A, B, C or D. We propose that the Government share of Second slab expenditure on education referred to above should be 50 per cent for Class A Blocks, 60 per cent for Class B Blocks, 70 per cent for Class C Blocks and 80 per cent for Class D Blocks. Similarly we propose the Local Cess Matching Grant should be fixed at varying rates for different classes of blocks.

The difficulty in framing this classification is to arrive at a criterion of classification which can be applied objectively, without throwing the field open for competition to secure favourable classification as in the case of " Backward Classes ". We believe we have found a workable criterion.

SECTION V—RECOMMENDED FINANCIAL SCHEME.

42. The simplest way of presenting the Financial Scheme which we recommend is to exhibit it in the form of a "Perspective Budget of Panchayat Administration" as shown below:—

PERSPECTIVE BUDGET OF PANCHAYAT ADMINISTRATION.

Main heads and sub-heads of expenditure.	Target rates in naye Paise per capita. Panchayat Union.	Village Panchayat.	Total.
(1)	(2)	(3)	(4)
A. General Management, Revenue Collection and Miscellaneous Service Charges.	15	15	30
B. Health and Welfare Expenditure—			
1. Water-supply, Drainage, Sanitation and Lighting ..	..	45	45
2. Maternity and Child-Welfare.	20	5	25
3. Health Protection and Medical Relief	30	..	30
Total, B ..	50	50	100

Main heads and sub-heads of income.	Target rates in naye Paise per capita. Panchayat Union.	Village Panchayat.	Total.
(5)	(6)	(7)	(8)
I. Assigned Local Revenues—			
1 Local cess	120	20	140
2 Land Revenue centage ..	100	..	100
3 Stamp duty	..	35	35
4 House tax	..	30	30
5 Minor local revenues ..	15	10	25
Total, I ..	235	95	330

C. Works Expenditure—			
1. Capital Expenditure ..	20	20	40
2. Maintenance of Roads ..	40	20	60
3. Other Works and Establishments	10	10	20
Total, C ..	70	50	120
D. Educational Expenditure—			
1. Pay and Allowance of Teachers	240	..	240
2. School Meal Grants	60	..	60
3. Other Local Educational Expenditure	40	10	50
Total, D ..	340	10	350
Grand Total, A to D ..	475	125	600

II. Statutory Government Grants—			
1 Local Education Grant ..	150	..	150
2 Local Cess Matching Grant ..	50	..	50
3 Local Roads Grant	40	..	40
4 House Tax Matching Grant.	..	30	30
Total, II ..	240	30	270
Grand Total, I and II ..	475	125	600

43. We recommend the foregoing budget for acceptance as the financial basis of planned development of Panchayat Administration, during the next few years of the Second Plan period and the entire duration of the Third Plan period.

It is not, of course, to be understood as a rigid allocation of funds for every block. We expect it to be used by every Panchayat Administration as a guide for its own development programme in the expectation that if it uses its own power to raise assigned local revenues, it would be entitled to receive from Government the statutory Government grants on a pre-determined basis, up to the target levels specified in the perspective budget.

44. We presume it will take at least three years (and perhaps two years longer) for Panchayat Administration to be set up in all blocks according to a phased programme throughout the State. We also expect a transitional period of at least three years (and perhaps two years longer) for each Panchayat Administration to step up its expenditure level and attain the target level. Thus the 'perspective' we have in mind for the State as a whole extends into, but not beyond the end of the Third Plan period.

45. The Expenditure side of the perspective budget calls for few remarks. The basis on which the figures have been arrived at has been explained at length in Sections II and III. The allocation of different items of expenditure, as between the Panchayat Union and the village panchayat follows the allocation of functions already decided upon by the Legislature Committee on Local Administration. We now proceed to set out our proposals in respect of each of the five items of 'Assigned Local Revenues' and four items of 'Statutory Government

Grants ' which are to yield an aggregate income of 600 naye Paise per capita (as the average for all blocks in the State). (At this stage, it should be borne in mind that we are dealing only with panchayat villages, as constituent units of every block. Panchayat towns have a different structure and higher level of expenditure and income. How they are to be fitted in will be dealt with in the next section.)

46. Our proposals regarding " Local Cess " (the first item in the list of Assigned Local Revenues) are as follows:—

(i) The " Local Cess " which will be the most important item of revenue of the Panchayat Administration should be a single unified local tax, on agricultural land and it should take the place of the following local taxes, viz.:—

(*a*) " Land Cess " of two annas in the rupee of land revenue leviable under section 74-B of the Madras District Boards Act, 1920.

(*b*) The " Education Cess " of up to three annas in the rupee leviable under section 34 of the Madras Elementary Education Act.

(*c*) The " Land Revenue Surcharge " leviable under the Madras Land Revenue (Additional Surcharge) Act, 1955, at thirteen naye Paise in the rupee of land revenue.

(*d*) The " land cess " leviable by panchayats under section 63 (3) (*a*) of the Madras Village Panchayats Act, 1950, at a quarter anna in the rupee of land revenue.

(ii) The new statutory definition of " Local cess " as thus unified should fulfil the following conditions:—

(*a*) It should ensure that the rate of local cess levied on any land does not fall short of 45 naye Paise in the rupee of land revenue (which is the present level of all the items which are unified into a consolidated local cess); and

(*b*) it should leave the maximum rate to be specified by statutory rules.

(iii) The power to fix the rate of Local cess within the minimum specified by law and the maximum specified by statutory rules should be vested in the Panchayat Union. The law should require the Panchayat Union to specify a proportion of the Local cess collected in each village to be credited to the Village Panchayat Fund of that village. This percentage should be so fixed by the Panchayat Union that the total income of all panchayats in the block does not fall short of 20 naye Paise per head of village population in the block.

The balance of the Local cess collections should be credited to the Panchayat Union (General) Fund.

47. It will be noted that the minimum rate of local cess, viz., 45 naye Paise in the rupee of land revenue—is the sum total of all the rates which it replaces at present. It has been stated as a working rule that a cess levied at the rate of one naye Paise in the rupee of land revenue is capable of yielding just a little more than two naye Paise per head of rural population in the State as a whole. (In terms of village population, it should be a little more still.)

Thus, we may take it that the present level of yield of all the local taxes which are proposed to be replaced by the Local cess is not less than 90 naye Paise per capita. Our perspective budget is based on the assumption that Panchayat Unions will exercise this power though on unequal extent, and that on an average for the State, it will be eventually raised to 140 naye Paise per capita (120 naye Paise for Panchayat Unions and 20 naye Paise for village panchayats). Altogether, therefore, we postulate an average increase of 50 naye Paise per capita which

means a quarter rupee on every rupee of land revenue. This increase will suffice to discharge the obligation of the Panchayat Union both in respect of meeting its share of Second Slab expenditure on Education, as well as to meet the increased cost of local works and local services falling within its sphere of responsibility. Will the Panchayat Unions vote the needed increase of rates of Local cess? We hope they will. We have provided a "Local Cess Matching Grant" in order expressly to provide a strong inducement for them to do so.

48. The next item of "Assigned Local Revenues" is Land Revenue Centage. Our specific proposal is set out below:—

Every year, a sum representing one rupee per head of the estimated population (during such year) of every block should be deducted from out of the gross collections of land revenue made in the State during the preceding year; and credited to the Panchayat Union (Education) Fund of the block concerned.

The sum thus credited may be referred to as the "Land Revenue Centage" of that block.

49. For the State as a whole, it is expected that the Land Revenue Centage would be roughly one-half of the gross land revenue collections. In some blocks, the land revenue centage may be less than one half of the land revenue collected therein. In others, it may be higher. There may be exceptional cases where the land revenue centage exceeds the land revenue locally collected. The point to remember is that the distribution is made from a State pool, so as to provide one rupee per capita uniformly for all blocks. It has been made clear already that the proposed assignment of the "Land Revenue Centage" is directly linked to the proposal that grants for aided private schools should be a charge on the Panchayat Union (Education) Fund; and it is intended

to cover the " First Slab Expenditure " on local education in every block. It is called " Land Revenue Centage " instead of merely First Slab Expenditure Grant in order to bring out the conformity of this proposal with a recommendation made on an All-India basis by the Balawantray Mehta Committee that " not less than one half of the gross land revenue " should be made over as grants to the " Block Panchayats " recommended by that Committee, which are the same as our Panchayat Unions.

50. The third major item of " Assigned Local Revenues " is Stamp Duty Surcharge. This is an existing tax.

(i) We propose that the rate of tax should be levelled up from 4 per cent to 5 per cent—the rate obtaining in municipal towns. The yield of this tax after raising the rate is estimated to be 35 naye Paise per capita on the average.

(ii) This income belongs exclusively to the village panchayat. We make two proposals in respect of its appropriation:—

(*a*) If the tax is credited, as it is realized, to the fund of the Village Panchayat where it arises, the yield would fluctuate excessively from one year to the next causing difficulties in village panchayat budgeting. In view of its importance in the budget of the Village Panchayat, we think the collections should be pooled every year for the block and distributed to the different villages in proportion to the land revenue collection within the limits of each village. This will assure a steady income for the panchayat.

(*b*) We think it is desirable to provide that where the Panchayat Union undertakes a work of common benefit for more than one panchayat, it may apportion the cost of such work among the different panchayats benefited

thereby. In such a case the Panchayat Union should be entitled to recover the share of each panchayat from the Stamp Duty Surcharge distributable as provided in (*a*) above

51. The next item, viz., the House Tax, will continue as at present, to be a source of income exclusively allotted to panchayats. The Perspective Budget takes credit for a yield from this source of 30 naye Paise per capita as against the present average yield, viz., 12 naye Paise. We do not think the target is excessive; but past experience shows that Village Panchayats are unlikely to exert themselves in this direction unless special steps are taken. We have in mind the following:—

(i) A "House Tax Matching Grant" is instituted in order to provide a strong incentive.

(ii) We propose (*a*) that the staff of the Land Revenue Department should be charged with the duty of preparing (at quinquennial intervals) a House Tax Assessment Register showing all houses assessed on the "classified plinth area" basis and specifying (as in a Settlement Register) the minimum rate of assessment which must be levied according to law. It should be left open to Village Panchayats to levy, at their discretion, either at the minimum rate or at proportionately higher rates.

(iii) The provision contained in section 64 (1) of the Madras Village Panchayats Act, 1950, for the exemption of huts and certain other exemption provision in the rules should be removed. The law should give effect to the principle that every family resident in a village, should make some regular annual contribution (however limited) towards the cost of amenities provided in the village.

52. The last item entitled "Minor Local Revenues" constitutes a group of existing items all of which have been fully described already. Subject to certain comments which we shall offer presently about income from Markets and Entertainment Tax, we consider that the existing position should continue unaltered. Those items of 'minor local revenue' which are at present creditable to the Village Panchayat of the village where it accrues, should, in future, also be credited to Village Panchayat Fund. Other items which are at present creditable to the District Board should be credited to the Panchayat Union.

53. The present position in respect of income from markets is set out in a departmental note which we reproduce below:—

"Under section 86 of the Madras Village Panchayats Act, 1950, the Inspector of Municipal Councils and Local Boards has powers to classify public and private markets situated in a village as district market and panchayat market and provide for the control of any such market and for the apportionment of the income derived therefrom between the District Board and the panchayat or the payment of contribution in respect thereof to the panchayat or the District Board as the case may be.

A market is classified as a panchayat or district market based on its local importance or district importance, the chief factor being the importance of the market in question.

Government have also laid down the following principles in fixing the rates of contribution from District Board to panchayat in respect of district markets:—

(1) In regard to a district market which is situated within panchayat limits, the District Board shall give the panchayat concerned a fair share of the net income from the market not exceeding 50 per cent.

(2) The share of the panchayat shall always be expressed as a percentage of the net income derived from the market.

(3) The percentage shall be fixed within the limit of 50 per cent referred to in (1) above, on the merits of each case, taking into consideration the following points:—

(*a*) financial position of the district board and the panchayat;

(*b*) the needs of the panchayat;

(*c*) the number of district board roads leading into or serving the market and their costs of maintenance; and

(*d*) direct expenditure incurred by the panchayat on sanitation, public health, etc., on account of the existence of the market."

54. We understand that in certain districts the working of the foregoing orders has resulted in anomalous variations; and that it is desirable to secure greater uniformity. It has been suggested that the basis of classification of markets as well as of the division of expenditure should be revised and expressed in more specific terms so as to secure the needed uniformity.

We have been unable to formulate a definite recommendation on this matter in the absence of detailed data. As the yield from this source of income varies enormously from district ot district, there is some doubt whether anything more than districtwise uniformity is possible.

We recommend that the existing position may be continued to start with; Panchayat Unions taking the place of District Boards. Power may be taken in the new Act for the review of this matter being undertaken in every

district by the District Development Council concerned; and a revision being effected (if found necessary) on the basis of such review.

55. We observe that the Entertainments Tax is a growing source of income. It is not equitable that the income from this source should be appropriated exclusively by the panchayat of the locality in which the income accrues; if, as is often the case, the income is contributed by large numbers of persons in neighbouring areas. We think it is desirable to institute a system of sharing the income between the panchayat concerned and the Panchayat Union, as in the case of income from markets.

We are unable, however, to formulate precise proposals; and, accordingly, recommend power being taken to effect revision, as in paragraph 54 above.

56. We now turn to a description of our proposals regarding Statutory Government Grants. As explained already, it is necessary to devise a system of fiscal classification of blocks in order that the system of Government Grants may take into account variations in the capacity of blocks to raise new resources by increased local taxation. We propose that the following rules should be adopted for effecting the fiscal classification:—

(i) The amount of land revenue demand for every block (excluding panchayat towns) for the year 1958-59 should be ascertained. This amount should be divided by the figure of village population of the block. The result is the " Village Land Revenue per capita ".

(ii) All blocks in the State should be arranged in serial order of magnitude of the Village Land Revenue per capita, starting with the highest and ending with the lowest. Out of the total number, the first 40 per cent of all blocks should be located in serial order starting from the highest. They should be classified as blocks of fiscal

class 'A'. Then, the next lot of blocks numbering 30 per cent of the total should be located. They should be classified as blocks of fiscal class 'B'. Then the next lot of 20 per cent of the total number should be located. They should be classified as blocks of fiscal class 'C' Finally, the remaining blocks numbering 10 per cent of the total should be classified as fiscal class 'D'.

(iii) This process of classification of blocks should be reviewed at quinquennial intervals. If any material changes in the Village Land Revenue per capita have occurred during the quinquennial period, such transposition of blocks from one class to another as may be shown to be necessary should be carried out.

57. The first and most important among the four categories of Statutory Government Grants which we propose is the Local Education Grant. This grant is to be assessed and paid in the Panchayat Union Fund of every block each year on the basis described below:—

(i) The total amount of approved expenditure charged to the Panchayat Union (Education) Fund (exclusive of private contributions) should be divided into two slabs. The first slab will be the amount covered by the Land Revenue Centage of the block. The second slab will be the expenditure above the first slab up to the target level of 350 naye Paise per capita. The actual amount falling within this slab will vary from year to year and from block to block and will be subject to a maximum of 250 naye Paise per capita. The Government share of this amount will be fixed by statutory rules at different percentages for each fiscal class. We suggest that it would be suitable to fix these percentages at 50, 60, 70 and 80 per cent respectively for blocks of fiscal classes 'A', 'B', 'C' and 'D'. As a result, blocks of class 'B' will represent the average of all blocks for the State. Government share of 250 naye Paise per capita in the

second slab will be 150 naye Paise per capita. The suggestion which we have made about percentages to be fixed for each class should be treated as provisional at this stage. It should be got confirmed after securing data from all (or a limited number of) blocks of all four classes. It should be ascertained that no unexpected practical difficulties would arise. We expect that this can be done after the new law is passed and before the Statutory Rules are framed.

According to the foregoing division of expenditure the panchayat union share of second slab expenditure will be 50, 40, 30 and 20 per cent respectively for blocks of fiscal class 'A', 'B', 'C' and 'D'. The amount thus determined should be transferred from the Panchayat Union (General) Fund to the Panchayat Union (Education) Fund.

(ii) In introducing the new system, it will be necessary to make some transitional arrangements to ensure smooth change over from the present system to the new system. We propose the following arrangements. The local education grant payable for the first year should be fixed so as to be sufficient to balance the budget of that year taken together with the land revenue centage and a general fund contribution equal in amount to the yield of education cess at current rates. This should be done even if the Government share of second slab expenditure is less than this amount. Similarly, the contribution made from the General Fund to the Panchayat Union (Education) Fund during the first year should not fall short of the yield of the education cess at current rates; even if this yield exceeds the panchayat union share of second slab expenditure. The division of second slab expenditure in the second and succeeding years should be effected, subject to the

minimum thus settled for the first year. It is to be expected that when the expenditure level increases and approaches the target level, the statutory ratio will become fully effective and the minimum will cease to be operative.

58. The next important item of Statutory Government Grant is the Local Cess Matching Grant. The nature of the local cess and the manner in which it is to be assessed have been described already. Our proposals in respect of the Local Cess Matching Grant are set out below:—

The Local Cess Matching Grant should match (not the whole of the local cess but) so much of the actual amount of local cess collection in every block as may exceed the statutory minimum (namely, 45 naye Paise in the rupee of the land revenue in the block). This excess may be referred to as the "surplus cess collection" of the block. The percentage which the Local Cess Matching Grant should bear to the surplus cess collections of the block may be called the "Matching Grant Percentage" of the block. We propose that this should be fixed for every block as shown below:—

Classification of block.	Matching Grant Percentage.
'A'	75 per cent for every block of this class.
'B'	75 to 125 per cent to be fixed for each block separately in this class.
'C'	125 to 150 per cent to be fixed for each block separately in this class.
'D'	150 per cent for every block of this class.

The percentages suggested above are designed to secure that, as an average for the whole State, the Local Cess Matching Grant will be equal in amount to the surplus cess collection in the whole State. Here again (as in the

case of the local education grant) we suggest that the percentages should be specified by Statutory Rules and not in the Act itself. The suggested rates should be got confirmed after verification of blockwise data in the manner proposed for the Local Cess Matching Grant.

59. *Local roads grant.*—It will be recalled that one of the existing sources of income of district boards is the toll compensation—vide paragraph 30 above. During 1953-54, this amounted to 16 naye Paise per capita. Our proposal is that this somewhat anachronistic provision in the Madras Motor Vehicles Act, 1931, should be repealed In lieu thereof, a specific local roads grant should be provided, of which the amount payable initially to every block should be fixed at 40 naye Paise per capita (this being the amount provided in the perspective budget for the maintenance of panchayat union roads). We suggest that provision should be made for review and refixation of the per capita rate of grant at quinquennial intervals with due regard to needs and resources as re-assessed at successive Five-Year Plan periods.

60. Lastly we come to the House Tax Matching Grant. The proposal is simple. For every rupee raised by any village panchayat in the State by way of house tax, an equal amount should be made available to the Village Panchayat Fund as the House Tax Matching Grant. (This proposal is limited to village panchayats and is not intended for town panchayats.) We consider it unnecessary that the Matching Grant percentages should vary from village to village, or even from block to block.

61. In concluding this section, we may explain the nature of the distinction we are making between " Assigned Local Revenues " and " Statutory Government

Grants ". " Assigned Local Revenues " are to be automatically credited under authority conferred by legislation. " Statutory Government Grants " are to become payable from year to year by virtue of specific orders issued under Statutory Rules by competent authority. While issuing such orders, it will be the duty of the competent authority concerned, to secure that the grants are assessed in the manner specified by the new Act and the Statutory Rules, that they are utilized for the purposes intended, and that the fulfilment of the conditions attached to the payment of grant is systematically verified.

SECTION VI—CONCLUDING REMARKS.

SUB-SECTION A—TOWN PANCHAYATS.

62. The Legislature Committee has decided that what are now known as " Class I Panchayat areas " should be reclassified as either " Panchayat Towns " or " Municipal Towns ". The Municipal Town should not form part of the Development Block concerned and a Municipality should be constituted which would be independent of Panchayat Unions. The Panchayat Town should continue to be part of the Development Block concerned; and a Town Panchayat should be constituted, as one of the local units of Federal Structure—Panchayat Administration. The Committee also reached the following conclusions:—

(i) Every Class I Panchayat area with a population exceding 20,000 should be reclassified as a Municipal Town; and

(ii) every Class I Panchayat area with a population of not exceeding 10,000 should be reclassified as a Town Panchayat.

The Legislature Committee has asked us to review every case individually of all the Class I Panchayat areas with a population between 10,000 and 20,000 and propose how each should be reclassified.

63. There are 111 Class I Panchayat areas with a population between 10,000 and 20,000. We have had no time to examine the merits of each case individually. We have had to content ourselves with recommending a basis of reclassification. In doing this, we find it necessary to suggest a slight modification of one of the two conclusions of the Legislature Committee regarding the basis of reclassification. We propose the following rules:—

(i) Every Class I Panchayat area of which the population exceeds 20,000 and of which the ordinary annual panchayat income would exceed one lakh of rupees if it was administered as a municipality should be reclassified as a Municipal Town.

(ii) The panchayat of any Class I Panchayat area whose ordinary annual panchayat income exceeds one lakh of rupees may (even if the population of such area does not exceed 20,000) apply to the Government for its reclassification as a Municipal Town. Such application should be granted, unless the Panchayat Union of the Development Block concerned objects to such reclassification and the Government are of opinion that such objection is well founded.

(iii) In all other cases, every Class I Panchayat area should be reclassified as a Panchayat Town (subject, however, to the provisions of existing law regarding subdivision and separate constitution of village panchayats).

64. It is obvious from the tenor of these proposals that we are in favour of keeping most of the existing Class I Panchayats within the limits of Development Blocks and constituting Town Panchayats for them. We think this is

the right thing to do in public interest. This will enable town Panchayats to get the benefit of the free services of the National Extension Service Staff as well as of the favourable terms of Government Grants which would be more likely to be available for Development Blocks than for Municipal Towns. Undue fragmentation of administrative and technical services will be avoided; and this will promote economy and efficiency. The small towns are the natural economic and cultural centres for the surrounding villages, and the Panchayat Union is likely to be seriously impeded in the discharge of the onerous responsibilities which are proposed to be entrusted to it, if it is deprived of jurisdiction over these towns. For these reasons, we think that the reclassification of such areas as Municipal Towns should be done very sparingly. A viable municipality cannot, in our view, be constituted without an income of at least one lakh of rupees.

65. At the same time it is necessary to bear in mind that Panchayat Towns will have a special character distinguishing them from Panchayat Villages. Apart from the large size of the population and its residential area, the population of the Panchayat Town is likely to consist more largely of non-agriculturists than agriculturists. The level of both income and expenditure *per capita* will be distinctly higher. The House-Tax will yield more income per capita; while Water-Supply, Drainage and Sanitation will consume more expenditure per capita. With reference to these considerations we think that a special arrangement is necessary for financing Elementary Education in Panchayat Towns: In view of the presence of a large non-agricultural population in the Panchayat Town, the yield of the local cess arising within its limits will be relatively low, expressed in per capita terms. According to the financial scheme recommended by us, the Panchayat Union will have to rely on

the enhancement of the rate of local cess (coupled with the Local Cess Matching Grant) in order to meet its share of increasing expenditure on elementary education. While it is legitimate that the Panchayat Town (as a local unit of Panchayat Administration) should get the full benefit of the Local Education Grant and Local Cess Matching Grant, it should not be placed on a more favourable position than Panchayat Villages. It should be required to furnish, in per capita terms, the same local contribution as Panchayat Villages to the cost of Development of elementary education. To this end, we propose that the Panchayat Union should have power to levy a " House-Tax Surcharge " in Panchayat Towns (but not in Panchayat Villages). The relevant legal provision should limit the levy to one-half of the amount assessed as required for purposes of equating the local contribution to elementary education from each Panchayat Town, to the contribution of the Panchayat Villages in the Block.

We also recommend that the Panchayat Union should be entitled to receive from Government a House-Tax-Surcharge Matching Grant equal in amount to the House-Tax-Surcharge, so as to cover the other half of the assessed requirements.

It will be recalled that we have recommended the House-Tax Matching Grant only for Village Panchayats and not for Town Panchayats. We are now proposing a House-Tax Surcharge leviable in Town Panchayats—not as an addition to the resources of the Town Panchayat, but of the Panchayat Union. In the circumstances, we consider the provision of a House-Tax Surcharge Matching Grant as essential in order to limit the House-Tax Surcharge leviable in Panchayat Towns. We may add that such a surcharge would not be a new impost. Provision exists, even at present, in section 34 (2) of the Madras

Elementary Education Act, 1920, for such a levy being made by District Boards. We are only continuing this power and vesting it in the Panchayat Unions. We are also defining the limits within which this power should be exercised.

SUB-SECTION B—PANCHAYAT FUNDS.

66. We accept the proposal in the White Paper that there should be a Panchayat Union (General) Fund maintained separately from a Panchayat Union (Education) Fund; and that these two should be separate and distinct from a Village Panchayat Fund for every Panchayat Village and a Town Panchayat Fund for every Panchayat Town. The manner in which the sources of income (specified in the Perspective Budget of Panchayat Administration) are to be separated and allocated to the different funds will be evident from the description of these sources.

67. It will be noted that the Financial Scheme recommended by us is limited to the works and Services of the same nature as those which Municipalities provide for the people in Municipal Towns. We have limited ourselves to the problems of allocation of resources required for these purposes only. We are aware that it has been proposed (and the Legislature Committee has accepted the proposal) that Panchayat Administration should (in contradistinction to Municipal Administration) perform in addition specific functions in relation to Agriculture, Animal Husbandry, Village Industries and Co-operation. We have not had time either to estimate the financial requirements or the problem of allocation of resources relevant to these functions. This must be undertaken as a special study later. We merely draw attention to that fact here and indicate that the setting up of a Separate Fund (or possibly more than one) will be necessary.

Sub-section C—Panchayat Development Expenditure and Central Government Grants to the State Government.

68. Earlier in this report we explained that the assigned Local Revenues and Government Grants amount at present to 275 naye Paise per capita in all the Panchayat Villages of the State, and that on an average this is proposed to be raised to 600 naye Paise per capita. We drew attention to the existence of a gap to be filled of the order of 325 naye Paise per capita and raised the question "Wherefrom will this money come?" It is convenient to set out the answer to this question at this stage.

To begin with 100 naye Paise per capita out of the 325 naye Paise is accounted for by our proposal about the "Land Revenue Centage". This is not a question of raising new resources; it is a transfer of existing resources from the State Government to Panchayat Unions. The State Government is relieved of its present commitment in respect of grants to private elementary schools substantially to a corresponding extent. We may also ignore for the present the new resources which will be raised in villages where no Panchayats exist at present, merely as a result of constituting Village Panchayats as elsewhere. We may then treat as Village Panchayat Development expenditure an amount representing 225 naye Paise per capita over the entire village population of the State. This will be something between 4½ crores and 5 crores per annum for the State as a whole.

So far as Town Panchayats are concerned, we do not envisage any particular increase or decrease in the present level of expenditure per capita, except in relation to elementary education. Making an allowance for this purpose, we may conclude the total amount of Panchayat

Development Expenditure for the entire rural (i.e., non-municipal) population of the State will be about Rs. 5 crores per annum. Out of this total, a little less than $3\frac{1}{2}$ crores per annum are required for the development of elementary education including provision of schools meals for poor children and rather more than $1\frac{1}{2}$ crores per annum for raising the standards of local amenities in villages.

69. According to the financial scheme recommended by us, we expect about $1\frac{1}{2}$ crores to be provided by increased local taxation; rather more than half a crore per annum as local contribution to the development of elementary education and rather less than one crore per annum for local amenities. The higher level of expenditure will have to be brought about according to a phased programme of establishment of Panchayat Administration, year after year in successive batches of Development Blocks.

70. The foregoing calculation shows that the net effect of our Financial Scheme will be to require that over two-thirds of the Panchayat Development Expenditure (nearly $3\frac{1}{2}$ crores per annum) will have to be provided out of State Government Funds. We wish to state clearly that we do *not* envisage the imposition of any new taxation at the State level (other than the one already announced, viz., the Agricultural Income-tax). It is well known that Madras State has done its best already to raise financial resources needed for implementing its Development Plan. The increase of local taxation which we expect the new Panchayat Administration to undertake through the exercise of enlarged powers will be considerable. It is essential, therefore, that further taxation at State level should be avoided. We understand that the resources already allocated under the relevant heads (e.g., elementary education, roads, etc.) under the Second Five-Year Plan will be sufficient (after taking into account the

Central Government Grants which are forthcoming under the pattern of assistance laid down under the Plan) to meet the expenditure on Government Grants which we have recommended. The position is thus safe enough for the remaining years of the Second Five-Year Plan.

71. But the scheme we have proposed for financing Panchayat Administration is of a permanent nature. The increase in the level of expenditure envisaged by us will proceed steadily and stabilisation at the higher level will be reached only after the mid-year of the Third Plan period. It is absolutely essential for the implementation of the Financial Scheme recommended by us that Central Government Grants to the State Government should continue to be available throughout the Third Five-Year Plan period, so as to cover a specific proportion of Panchayat Development Expenditure as defined by us. We think it would be a fair distribution of the burden of raising new resources for Panchayat Development, if the burden is distributed about equally at three levels, one-third on Panchayat Administration, one-third on the State Government and one-third on the Central Government. The proportion to be borne by the Central Government during the Third Plan period should not, in any case, be smaller than during the Second Five-Year Plan period.

We recommend that the State Government should take up this question with the Central Government straightaway. In view of specific provisions of Articles 36, 40, 45. 46. 47 and 48 of the Constitution; and in view also of the various pronouncements of the Prime Minister and other high authorities of the Central Government on the imperative need for the development of Panchayat Administration, we trust that the Financial Scheme

recommended by us (including, as an essential part thereof, the provision of Central Government Grants) will be accepted and embodied in the Third Five-Year Plan.

V. K. RAMASWAMY MUDALIAR.

V. K. PALANISWAMY GOUNDER.

S. RAMASWAMY NAIDU.

T. A. VARGHESE.

R. A. GOPALASWAMI.

8th May 1958.